

# Investors Taking Forestry Cycle in Stride

By *Mark Allen*, Business Writer

With southern timber prices down from their highs of a few years ago, are investors turning away from forestry? No, say forestry observers; and in fact, interest in forestland investment remains strong.

“This has been a longer downturn than most investors have experienced in recent times,” says consulting forester Steve Butler, president of TimberCorp, Inc., Brandon, Mississippi. “Some are getting concerned, but most realize we’re in a cycle.”

Butler often compares notes with forestry consultants in his area and other regions of the South. “The consensus is

that while timber is bringing less than it did a few years ago, prices are still high compared to historic trends,” Butler continues. “That’s true even though the forest economy has been in a recession. So my feeling is that if prices do this well during hard times, during better times they’ll be very strong.”

Records from Timber Mart-South demonstrate the timber price growth that occurred during the 1990s (see Figure 1 below). In that low-inflation decade, prices essentially doubled. “This illustrates the point that prices aren’t as bad as some people might think,” Butler says.

Supporting these observations is the fact that timberland values remain stable, even as timber prices have taken a dip. “If the market is expecting timber prices to recover, that thinking will be reflected in timberland values,” observes Jack Lutz, Ph.D., a forest economist with the James W. Sewall Company, Old Town, Maine.

One motivating factor behind timberland demand is that investors see forestry as a strong and stable long-term performer in a diversified financial portfolio because of its income return (as compared to appreciation or capital return). “While total returns from stocks often exceed total returns from timber-



Figure 1. Source: Timber Mart-South, Norris Foundation, Athens, Ga. [www.timbermart-south.com](http://www.timbermart-south.com).

INCOME PROPELS TIMBERLAND OVER S&P 500 IN 2000			
Asset	Total Return	Appreciation Return	Income Return
S&P 500	-9.11%	-10.14%	1.10%
NCREIF Timberland	4.41%	-0.22%	4.65%

**Figure 2.** Calendar year 2000 returns. NCREIF - National Council of Real Estate Investment Fiduciaries. Source: Lutz, J. 2002. *Timberland Report*, Vol. 3 No. 4. James W. Sewall Co. [www.jws.com](http://www.jws.com).

land, income returns from timberland tend to be higher than income returns for the S&P 500,” Lutz explains, pointing out a significant spread in 2000 (see Figure 2 above).

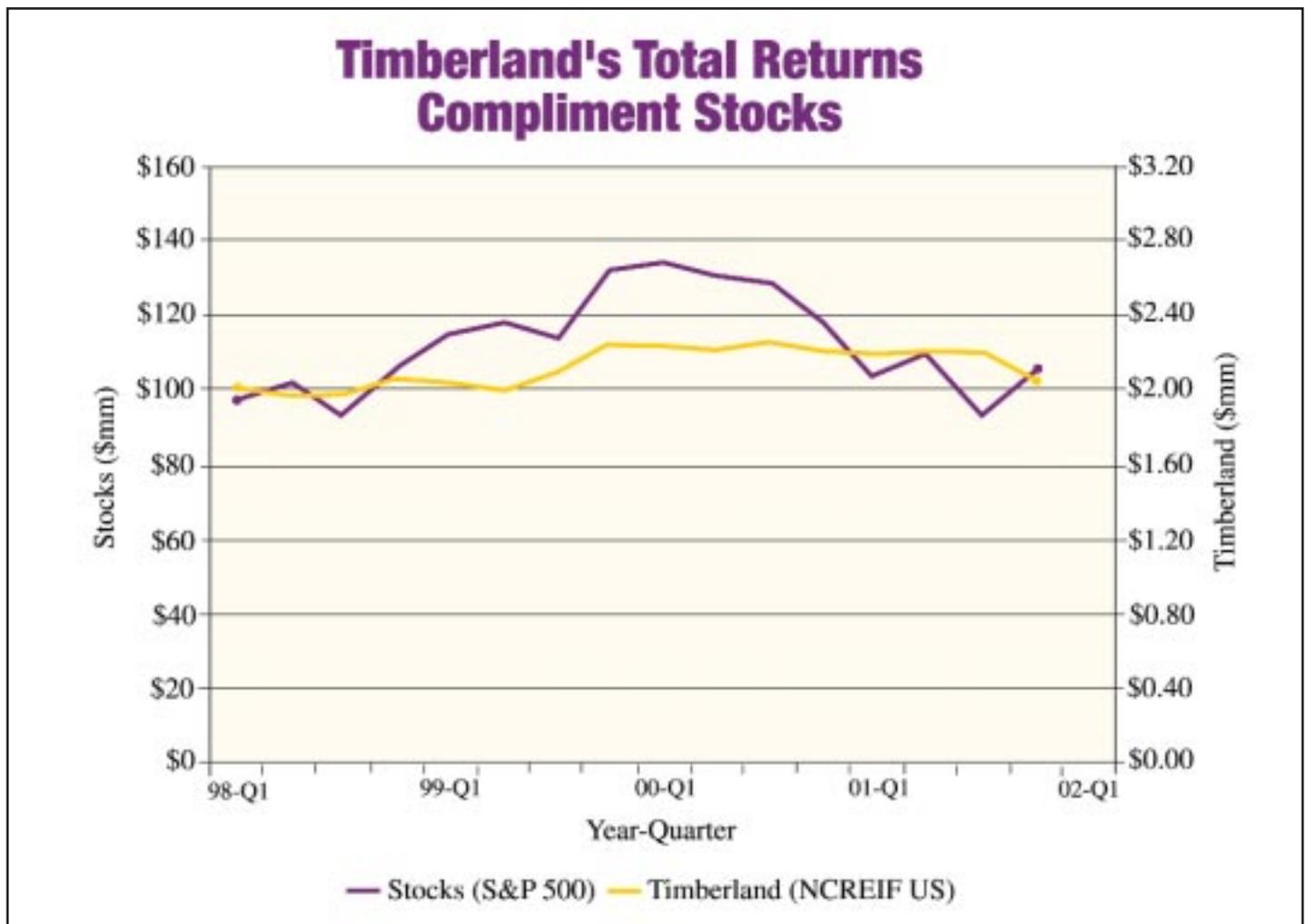
Since 1987, annual timberland income returns have ranged two to four percent higher than the annual S&P 500, Lutz reports. In addition, the downturn in the

stock market since 2000 has dramatically shown that paper gains in stocks can quickly disappear while forestry provides attractive and consistent total returns (see Figure 3).

“Institutional investors see the current times as excellent buying opportunities into forest markets,” Butler says. “But it’s not like the long-gone ‘good old days’ of

low timberland values, so investors are relying more heavily on high-productivity management to assure good returns.”

*Mark Allen is a business writer who frequently covers forestry and wildlife topics. Reprinted with permission from Timberlines ([www.timberlines.com](http://www.timberlines.com)) Volume 14, Number 2, Fall 2002.*



**Figure 3.** Performance of a hypothetical portfolio starting with 98 percent stocks and 2 percent timberland in 1998. Source: Lutz, J. 2002. *Timberland Report*, Vol. 3 No. 4. James W. Sewall Co. [www.jws.com](http://www.jws.com).